September 21, 2017

Archit Organosys Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	37.63	[ICRA]B+ (Stable); Reaffirmed
Non-fund-based Limits	12.75	[ICRA]A4; Reaffirmed
Total	**50.38**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus)[1] on the Rs. 37.63 crore[2] fund-based limits of Archit Organosys Limited (AOL). ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) on the Rs. 12.75 crore non-fund based limits of AOL. The outlook on the long-term rating is 'Stable'.

Rationale

The reaffirmation of the ratings takes into account the large size of the capital expenditure programme for setting up a new plant and its associated fixed costs, which coupled with the delay in commissioning of the project and gestation period for achieving desired production levels and quality resulted in operating and net losses in Q1FY2018. The same exposes the company to project execution risks and is also likely to result in moderation of the return and debt coverage indicators in the near term. The ratings also remain constrained by the company's relatively moderate size of current operations in the chemical industry with stagnancy in the operating income; though the setting up of the new plant is however expected to aid in scaling up of operations, going forward. Further, the ratings continue to factor in the vulnerability of the company's profitability to raw material price fluctuations as well as to fluctuations in the foreign currency exchange rate given the high proportion of exports of total manufacturing sales, though the latter risk is partly mitigated owing to hedging undertaken by booking of forward contracts. ICRA has also taken a note of the contingent liability of the company related to forex losses on matured derivative contracts incurred in FY 2009 and interest thereon aggregating to Rs. 1.47 crore as on March 31, 2017 (6% of Tangible net worth as on March 31, 2017); while the matter is currently under litigation, any unfavourable developments on the matter may impair the financial profile of the company and constitutes an event based risk.

The reaffirmation of ratings, however, favourably factor in the improved net worth base owing to funds raised by means of a right issue. Further, the ratings continue to favourably factor in the longstanding experience of the promoters in the chemical industry; the company's diversified revenue channels in the form of manufactured and trading sales and its diversified customer base.

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

Key rating drivers

Credit strengths

- **Longstanding experience of the promoters in the chemical industry**– The promoters have a long standing experience spanning over two decades in the chemical business which has aided the company in establishing a reputed clientele base and to scale up its operations.
- **Diversified revenue channels and reputed customer base-** The Company has diversified revenue channels in the form of manufacturing and trading sales. Manufacturing sales formed 58% whereas trading sales contributed 42% to the revenues of FY2017. The company has a diversified and reputed customer base which is comprised of dealers, traders, and various manufacturers across pharmaceuticals, pesticides and oil drilling industries. The company has been supplying to these customers since a long time and has established relationships with them.
- **Improved net worth position owing to raising of funds by means of a right issue-** The net worth of the company has improved from Rs. 12.99 crore as on March 31, 2016 to Rs. 26.65 crore as on March 31, 2017 owing to partly paid up shares worth Rs. 12.50 crore allotted by means of a right issue, the proceeds of which is proposed to be utilised for part funding the capex for capacity expansion. Although the net worth position improved, the gearing levels deteriorated to 1.19 times as on March 31, 2017 from 0.85 times as on March 31, 2016 owing to the increase in debt levels for funding the capex. The total right issue entailed Rs. 25.11 crore and the receipt of the balance Rs. 12.50 crore by September 30, 2017 is expected to improve the net worth position and gearing levels.

Credit weaknesses

- **Weak financial risk profile which is expected to remain constrained in the near term given the large debt funded capex-** The financial risk profile of the company remains weak as reflected by modest scale of operations with net sales of Rs. 45.71 crore in FY2017 and high Total Debt/OPBDITA of 8.67 times. Further, the company reported operating and net losses in Q1FY2018 owing to the high fixed costs pertaining to capex undertaken for enhancing its capacities coupled with the delay in commissioning of the project and long gestation period associated with achieving the desired production and quality. The large debt funded capex is expected to keep the financial risk profile constrained in the near term. Moreover, execution risks remain with respect to the achievement of the desired operating parameters.
- **Contingent liability of Rs 1.47 crore -** The company has a contingent liability of Rs 1.47 crore (~6% of FY2017 Net Worth) in the form of derivative losses incurred in FY 2009 which have not been provided for; the matter is under litigation.
- **Margins exposed to adverse fluctuations in foreign currency exchange rates and raw material prices** –The manufacturing revenues are dominated by exports which have increased significantly to 81% of revenues in FY2016 and 86% in FY2017 from 22% in FY 2015. With the increasing export contribution, the company’s operations remain exposed to the foreign exchange fluctuation risk. The risk is however partly mitigated by the fact that the company hedges most of its exposure through forward contacts. Given its relatively modest size of operations the company is also exposed to the spread between its finished product prices and raw material prices, which tend to be cyclical in nature.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
[Corporate Credit Rating Methodology]

About the company:

Archit Organosys Limited (formerly Shri Chlochem Limited) was incorporated in 1989 for the production of organic intermediates viz. Mono Chloro Acetic Acid (MCAA) and Sodium Mono Chloro Acetate (SMCA). The company's manufacturing unit is located at Naroda GIDC, Ahmedabad in Gujarat with a production capacity of 6000 metric tonne per annum (MTPA) of Mono Chloro Acetic Acid (MCAA). The company has set up a new unit at Bhavnagar, Gujarat which will enable it to manufacture additional 12,000 MTPA of MCAA as well as venture into manufacture of higher value added Chloroacetyl Chloride (CAC) with an installed capacity of 3000 MTPA. The company sells its chemical products both in the domestic and international markets. The company is also involved in trading of organic and specialty chemicals namely Ethyl Acetate, Acetic Anhydride, Toluene etc.

Key financial indicators (Audited)

	FY2016	**FY2017**
Operating Income (Rs. crore)	51.43	48.04
PAT (Rs. crore)	1.47	1.56
OPBDIT/ OI (%)	5.99%	7.60%
RoCE (%)	20.95%	9.42%
Total Debt/ TNW (times)	0.85	1.19
Total Debt/ OPBDIT (times)	3.59	8.67
Interest Coverage (times)	3.72	5.71
NWC/ OI (%)	17%	24%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY16	Date & Rating in FY14
					September 2017	August 2016	May 2015	December 2013
1	Cash Credit	Long Term	7.50	-	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	[ICRA]B
2	Term loan	Long Term	29.28	-	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	-
3	Unallocated	Long Term	0.85	-	[ICRA]B+ (Stable)	[ICRA]B+	-	[ICRA]B
4	FDBP/ FUDBP*	Short Term	8.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
5	Letter of Credit^	Short Term	4.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
6	Letter of Guarantee	Short Term	0.75	-	[ICRA]A4	[ICRA]A4	-	[ICRA]A4

*Foreign Documentary Bill Purchase (FDBP) /Foreign Usance Documentary Bill Purchase (FUDBP), includes Packing Credit sublimit of Rs. 8.00 crore, Cash Credit sublimit of Rs. 1.50 crore and IDBP and IUDBP sublimit of Rs. 1.00 crore; ^includes BG/Buyer's Credit sublimit of Rs. 3.00 crore

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit	-	-	-	7.50	[ICRA]B+ (Stable)
	Term loan	-	-	FY2023	29.28	[ICRA]B+ (Stable)
	Unallocated	-	-	-	0.85	[ICRA]B+ (Stable)/
	FDBP/ FUDBP	-	-	-	8.00	[ICRA]A4
	Letter of Credit	-	-	-	4.00	[ICRA]A4
	Letter of Guarantee	-	-	-	0.75	[ICRA]A4

* Source: The Company

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